



MEMORANDUM

TO: THE HONORABLE MAYOR AND CITY COUNCIL

THROUGH: BERT LUMBRERAS, CITY MANAGER
STEPHANIE REYES, ASSISTANT CITY MANAGER

FROM: MARIE KALKA, DIRECTOR OF FINANCE

DATE: AUGUST 17, 2021

RE: UTILITY ACCOUNT FORGIVENESS PROGRAM IMPACT

At the August 3rd City Council meeting, Council directed staff to write off all residential utility accounts 30 days or more past due. In preparing to initiate Council's direction, it was determined that a budget amendment is necessary to appropriate funds to implement Council's direction. Once approved at 2nd reading on September 7th, the Utility Account Forgiveness Program will be initiated and all residential accounts greater than 30 days delinquent will be written off. We have continued to accept applications through the Utility Assistance Program with the understanding that the program will be terminated once the budget amendment is approved upon second reading.

As stated at the August 3rd City Council meeting, there are some concerns and potential impacts for Council to be aware of as they move forward with implementing this write off:

- **Fund Balance:** Attached is a report ran on August 7th to determine account balances and how those balances are split between funds. Stormwater has the most concerning fund balance because even with a rate increase, it continues to fall below the 25% of operating expenditures requirement. The Electric and Water/Wastewater Funds are most impacted by this write off. While their fund balances are anticipated to remain above the requirement, both funds have infrastructure needs for which the City continues to issue debt.
- **Bond ratings:** There is no way to forecast definitively the effect, if any, this one decision will have on our current bond ratings as they are based on many factors, including fund balance. Standard & Poor's (S&P) overview for the A- rating acknowledged "Management is financially and operationally conservative, which supports credit quality." Our cash reserves will be impacted by this decision so the potential for a downgrade does exist. Stable, long-term financial planning by the City Council allowed us to not have to pass on rate increases to our customers directly related to Winter Storm Uri. While our electric credit rating recently remained at A-, the City did remain on credit watch which means any steps taken perceived as negative could impact our future rating. We cannot accurately state that this decision would have an effect on that perception, but it is important for us to make you aware of the potential ramifications.



- Late fees: The City is beginning to charge late fees again in September; however, the impact of not charging late fees has been a loss of over \$1 million to the various funds. Reinitiating the recovery of delinquent charges was also noted positively by S&P in the latest electric rating.
- Rates: The impact of this write-off was not factored into the various rate models that were considered by the Citizen Utility Advisory Board or City Council as direction was received too late in the process. We will include the 2021 actuals at this year's end to determine the impact factored into next year's model. At this time, it is not anticipated that this action will have any significant impact on rates.
- Utility Assistance Program customers: Accounts in the file run in August that have previously applied for and received the Utility Assistance adjustment through the original program launched earlier this year will also be eligible to receive the forgiveness "rebate".

In addition to the above considerations, staff also seeks clarification on the effective date of utility account forgiveness. While direction was given by Council on August 3rd to write off balances as of that day, staff would like to point out that using the August date will involve a more manual process for staff to implement and may have other unintended consequences than going with a date in September after the budget amendment has had its second reading. Customers that have become 30 days delinquent after August 3rd would not be included in the program if we use the August date or they may accumulate a greater balance in the month in between. Staff will be prepared at the meeting to discuss the circumstances of going with either the August or September effective date.

City of San Marcos
 Utility Account Forgiveness Analysis

	Balances >30 Days as of 8/5/21	% of Est Writeoff Balances	Estimated General Fund Support Balance	Balance Needed from Fund	Rounded	Fund Balance Requirement	2021 Proj. Prior	2021 Proj. After
Electric	689,820	60%	341,412	348,408	348,500	60 days	67	65
Water/Wastewater	290,014	25%	143,536	146,478	146,500	25%	28.3%	28.0%
Resource Recovery	125,993	11%	60,357	65,636	65,700	N/A	41.7%	39.9%
Stormwater	29,412	3%	14,557	14,855	14,900	25%	17.08%	16.2%
General (Community Enhancement Fees)	11,704	1%	5,793	5,911	6,000	25%	30.7%	30.7%
	1,146,943		565,655	581,288	581,600			
Balance as of 8/11/21			566,915					